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TURNING HOME EQUITY INTO INCOME FOR OLDER HOMEOWNERS

AN INFORMATION PAPER

PREPARED BY THE STAFF OF THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

JULY 1984

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PREFACE

The concept of home equity conversion is new to many people—elderly homeowners as well as lenders and investors. It is for this reason that the Special Committee on Aging has prepared this information print. The committee does not necessarily endorse any of the programs discussed; however, it believes that some of these arrangements may be advantageous to some older people. In order that such programs may be available on a wider basis for those people who need and desire them, further information, education, and discussion are needed.

We urge homeowners interested in equity conversion to seek legal and financial advice in determining the appropriateness of any equity conversion plan to their own income needs and before agreeing to participate in any plan.

We wish to thank the Federal Home Loan Bank Board for lending the assistance of Mary H. Parker to research and write this report. We also gratefully acknowledge the assistance of Jill Duson, Trudy Ernst, Peter Fuchs, Jack Guttentag, Bruce Jacobs, Abbot Leban, Don Ralya, Kenneth Scholen, Raymond Struyk, and Maurice Weinrobe, for their advice and comments during production of this report.

This committee print has been updated from the original document published in July 1982.

JOHN HEINZ,
Chairman.
JOHN GLENN,
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TURNING HOME EQUITY INTO INCOME FOR OLDER HOMEOWNERS

INTRODUCTION

Home equity conversion or reverse equity plans are designed to help house-rich and cash-poor homeowners unlock the value of their home and convert it into income, without being forced to move or having to repay the loan from monthly income.

Approximately 12.5 million homes are owned by Americans over 65 years of age. Eighty percent of these are owned free and clear, without any outstanding mortgage. For the majority of these older homeowners, the equity they have accumulated in their homes represents their single largest asset, their major lifetime investment, and the bulk of the estate they have to leave their children. It is estimated that the home equity held by elderly Americans totals more than $600 billion.

A study of the Annual Housing Survey of 1977 by Bruce Jacobs, a professor at the University of Rochester, N.Y., showed that one-fourth of all low-income elderly homeowners could raise their incomes above the poverty level by drawing upon the equity in their homes; two-fifths of low-income homeowners over the age of 75 could use home equity to raise their monthly incomes above the poverty line. For these elderly, home equity could be used to meet primary monthly expenses.

Other elderly homeowners could draw upon home equity to make repairs on their homes, making the home pay for itself rather than spending monthly income for upkeep. In some cases, the use of equity funds to put in ramps, handrails, elevators, or bathrooms will enable the elderly homeowner to continue to live self-sufficiently. Equity loans also can be used to meet medical and health care expenses. Often such homeowners have monthly incomes too low to qualify for conventional mortgage loans.

In all of these instances the elderly homeowners would be helped by some method which allows them to draw upon the asset represented by their home's value (equity), without moving elsewhere and deferring repayment until a later time. The White House Conference on Aging and the President's Commission on Housing recently recommended that ways should be found to make equity conversion more available across the Nation.

One policy criticism of home equity conversion is that it perpetuates the "overhousing" of the elderly, maintaining a single person or couple in a three- or four-bedroom house which might better be used by a younger family with children. This criticism overlooks the important psychological and social factors involving homeownership and financial independence for many older people. Older people should have a choice of living arrangements. Most older people do not want to move

from familiar surroundings and neighborhoods and alternative housing may not be available near their present home. Also, remaining in a home may be cheaper than renting in terms of monthly out-of-pocket costs or when the cost of finding, buying, and moving into a newer, smaller home are considered.

Another criticism of home equity is that the attractiveness of some schemes to lenders and investors depends upon continued inflation and increasing property values. Aside from the negative economic implications of such expectations, lenders and investors may be reluctant to enter into home equity conversion arrangements for homes in locations, or of a character which are not likely to appreciate within the predictable future.

Within the past several years, a few programs have been developed or proposed to permit older homeowners to unlock home equity. The major methods are: The reverse annuity mortgage (RAM); the split equity and sale/leaseback arrangements; and the deferred payment loan. In all of these programs, the home equity is converted to cash, either as a monthly payment or a lump sum.

Each of these arrangements will be discussed in turn, providing examples of how the plan would work and identifying major elements which consumers should look for in such plans to protect themselves and their future financial security. There are elements of both cost and risk in equity conversion, which homeowners should recognize and weigh carefully. The existing programs try to minimize these hazards and costs, but many questions remain to be answered.

HOME EQUITY CONVERSION PROGRAMS

Reverse Annuity Mortgage (RAM)

The reverse annuity mortgage is the opposite of a conventional mortgage loan. The loan is paid to the homeowner in monthly payments, the amount determined by the amount of home equity borrowed against, the interest rate and the length of the loan. Therefore, the amount of interest owed rises as the amount drawn (borrowed) increases. The loan is repaid at a scheduled time or, under some arrangements, whenever the homeowner chooses—usually by selling the house.

The value of the house at the time of the mortgage agreement determines the maximum loan amount. Because of the cost to the lender and the potential risk that the home may decline in value, reverse loans are not made for the full amount for which the house might be sold. Also, some lenders believe that homeowners with some continuing equity investment in the house will maintain it better. Usually, the loan amount is between 60 to 80 percent of the appraised value of the property. Some lenders are developing reverse mortgage arrangements with adjustable rates and shared appreciation features.

Reverse annuity mortgages for terms from 5 to 10 years are being offered through the reverse annuity mortgage program of the Nonprofit San Francisco Development Fund, which is working with four San Francisco Bay-area lenders (Bank of America, Wells Fargo Bank, Crocker National Bank, and First Nationwide Savings & Loan). This program has been in operation since April 1981, in the Marin County area, using eight new nonprofit sponsors. It is directed to people over 62 years of age, with low to moderate income—maximum $19,680 for one person and $22,440 for two people—who live in owner-occupied single-family houses or condominiums. Almost 100 RAM loans have been made, yielding an average monthly payment of $850 on properties averaging $125,000 to $250,000 in value.

The following example illustrates how the RAM program works: A reverse mortgage loan of $120,000, at a fixed rate of 14 percent for a 10-year term, plus a 1-percent loan origination fee and other charges, would yield a monthly income of $463. If an initial disbursement of $5,000 is made to pay off an existing mortgage or make repairs on the house, the monthly income would be $386. After 10 years, the loan must be repaid or renegotiated.

The RAM program began with a level monthly payment reverse mortgage loan with a fixed interest rate and fixed term. Now it is offering a graduated payment RAM with fixed interest rate and fixed term—monthly payments increase by 6 percent annually. The RAM program offers the option of an initial loan disbursement which the owner could use to purchase a deferred annuity to provide income

when the loan terminates. However, the annuity will not pay off the RAM loan or assure life tenure in the home.

Lenders participating in the RAM program placed a ceiling of $150,000 on the maximum loan amount, which also is limited to 80 percent of the property's appraised value. Fees and charges are limited to 1 percent of the loan amount, plus the appraisal cost ($100 to $150) and normal closing costs, including escrow and title insurance fees.

Homeowners who have obtained reverse mortgage loans have used funds for a variety of needs. One recently widowed woman used the monthly payments as income until she could restructure her finances and sell her home. Others have drawn upon home equity to meet medical expenses, or to pay for in-home or nursing home care for a spouse. Some of the older borrowers have taken out a loan in the expectation that the term would match or exceed their life expectancy, while the loan would provide them with income for a more comfortable existence in the present; in doing so, they accept the risk that they may, in fact, live longer and have to sell the home to pay the loan.

Other proposed variations of the reverse annuity mortgage would invest some or all of the home equity loan or provide an annuity which would yield a lifetime income for the homeowner. None of the reverse loan plans available now offer a guaranteed income for the remainder of the borrower's life. A long-term mortgage plan guaranteeing income to age 100 has recently been offered in New Jersey by a corporation called American Homestead Mortgage Corp., a mortgage bank licensed by the State of New Jersey.

Sale/Leaseback

The sale/leaseback arrangement is one of the oldest methods of equity conversion. One form, called *rentes viageres*, has existed in France for a number of years and has been used in the United States. Some sale/leasebacks have been completed, where children purchase the home from their parents.

There are a number of ways to structure a sale/leaseback. All involve an investor who purchases the elderly seller's home and grants the seller life tenancy in the home or the right to a more limited tenancy at a specified rental payment. For investors, a major incentive for participating in sale/leaseback is the depreciation of the property for tax purposes. Also the seller may be able to take the one-time capital gains deduction of up to $125,000 on the sale, available to homeowners over age 55.

The elderly seller may receive payment in a variety of ways: A lump sum in equal monthly payments based upon an annuity purchased by the investor; or in monthly mortgage payments from which the monthly rent is deducted. The method used will depend upon the income needs of the elderly homeowner and the tax situation of both the seller and the investor. The sale agreement establishes a contractual relationship between the investor and the seller which clearly spells out the elderly individual's right to continued occupancy, the rent schedule, and other financial responsibilities, and assigns responsibility for the future maintenance and care of the property. If the arrangement involves monthly mortgage payments, the agreement specifies

the disposition of the remainder owed, should the elderly person die before completion of payment.

Sale/leasebacks have the advantage that all of the transaction is completed at the beginning, giving the older homeowner a view of future income and expenses which must be calculated against potential inflation. The elderly seller is protected against buyer default by the mortgage and the annuity purchased at the time of sale.

A sale/leaseback program is being offered by the Fouratt Plan of California. Under this program the investor is required to lease the property back to the senior seller. The lease establishes a lifetime right for the seller to occupy the home. The investor/buyer is responsible for major repairs and maintenance, as well as property taxes, and fire and casualty insurance. A portion of the purchase price is paid to the seller as a downpayment and the remainder is set as a fully amortizing loan with equal monthly payments and a fixed interest rate. The seller pays an agreed upon rent to the buyer, based on the current rental market. Prior to closing, the buyer must purchase a single premium, deferred annuity for the seller that will generate annuity payments equal to the monthly mortgage payments, to begin the month following the final payment of the note, as an assurance of lifetime income for the seller. (The annuity has no death benefit.) Both mortgage payments and rent are paid to an agent (a bank) which is responsible for handling property management expenses. At time of sale, the heirs of the senior homeowner are offered the opportunity to purchase the property on precisely the same terms as the buyer.

The following example shows how a Fouratt sale/leaseback might work: A 79-year-old widow sells her house, appraised at $80,000, to an investor for $63,000, a 21-percent discount. She receives a downpayment of $6,320 (10 percent) and a 12-year promissory note for the $56,880 balance. She receives a monthly payment of $679 from the investor, including interest at 10 percent per year, from which she pays rent of $285 back to the investor, leaving $304 as net income. The buyer purchased an annuity which will maintain the $697 monthly payment after the note is paid off.

Split Equity

The HELP program, Home Equity Living Plan, Inc., of Buffalo, N.Y., is a publicly sponsored home equity conversion program. It was the idea of a city councilman, who remembered his own mother's inability to use the equity tied up in her home to meet her living needs. The plan was capitalized by $1.3 million in community development block grant (CDBG) funds.

The HELP program is a split equity arrangement. The homeowner is guaranteed a lifetime tenancy estate to the property, while the public body becomes the owner of a remainder interest. The homeowner retains title to the house until death (in case of a couple, until both die). If the corporation fails to deliver the promised payments, it forfeits its rights to the house. In essence, the monthly payments to the owner represent a long-term installment purchase of the property.

The following example illustrates how the program works: In August 1981, HELP, Inc., signed a contract with a woman, aged 66, in which the corporation agreed to rehabilitate her $16,000 house

and to pay all her future expenses of major maintenance, insurance, and taxes, plus a cash annuity of $624 per year for the remainder of her life. In exchange the woman relinquished the residual equity in her house. When she dies, the corporation will take title to the house and sell it to recover its investment.

Deferred Payment Loan (DPL)

The deferred payment loan is another means by which elderly homeowners can draw upon home equity to maintain and repair their homes, thus preventing loss of the property value. These loans permit homeowners to defer payment of all principal and interest either for a specified term or until the house is sold.

For older homeowners who may wish to move to smaller living quarters or into other housing arrangements, deferred payment loans permit rehabilitation and repairs which make the house more salable or may increase its value. Other homeowners use such loans to make repairs and changes which permit them to remain in their homes comfortably and with greater self-sufficiency for the remainder of their days or until other housing is needed. Homeowners whose monthly incomes are too small to qualify for conventional loans could use deferred payment loans to create an income-producing unit in the home, which would provide greater monthly income and could be used to repay the loan at term.

In Wisconsin, a statewide program used public and private nonprofit agencies to make deferred payment loans to low-income elderly homeowners in certain targeted neighborhoods requiring rehabilitation. State revenue funds were used to provide about $4.6 million in loans—668 loans averaging about $6,900—for home repairs.

Some other States, for example, New Jersey, make low-interest home improvement loans or life grants to older homeowners in designated neighborhoods, which do not have to be repaid until title is transferred. Also, in two States—California and Oregon—elderly homeowners are able to defer payment of property taxes until their home is sold or the estate settled.

WHO CAN USE HOME EQUITY?

Home equity conversion might not be appropriate as an income source for many older people. Equity conversion would not be practical unless the older person owns a home which is not encumbered by any large existing mortgage debt. Neither people who have homes with substantial remaining mortgages nor renters can take advantage of such arrangements. Homes of $100,000 or more, owned by single individuals over age 75, in neighborhoods with high likelihood of property value appreciation, are apt to be considered the best risks for equity conversion by lenders and investors.

The less the value of the home, the less equity income can be drawn from it. Some people feel that homes of lower value may not provide monthly payments large enough, when averaged over a term of 10 or more years, to be worth the cost of the loan. However, some elderly people would be grateful for an extra $50 or more per month. The equity in even a modest home ($40,000) may be enough to provide funds for home repairs or to meet medical or home care expenses.

Equity conversion plans which guarantee lifetime income payments are most appropriate for homeowners over the age of 75. RAM annuity arrangements are better suited to individuals and households with shorter life expectancies. For couples in their sixties, a lifetime annuity is likely to be too expensive to be practical. This is because the annuity benefits vary with the age and sex of the annuitant. Older annuitants would receive larger payments than younger ones and, at any given age, men would receive larger payments than women because of their shorter life expectancy. Also, high mortgage interest rates will have an adverse effect on income under reverse annuity loan arrangements.

There is a lack of experience among insurance companies with annuity risks for the very old and only a few companies offer such annuities at higher than average costs. Homeowners interested in lifetime income arrangements should compare several different plans. Also, they should weigh the added costs of annuities against the risks of term loans or other arrangements.

EFFECT OF EQUITY INCOME ON SUPPLEMENTAL SECURITY INCOME (SSI) AND MEDICAID ELIGIBILITY

As yet the Social Security Administration has not developed policies to deal specifically with home equity conversion income. Replies to inquiries, at present, are based upon interpretation of existing policies relating to unearned income and conversion of resources. Under present rules, SSI eligibility is not affected by the asset value of a home. Loans which must be repaid are considered as resources, not as income. The same is true of a resource which is converted from one form (home) to another form (cash) as in a sale/leaseback. Therefore, payments from reverse mortgage arrangements and sale/leasebacks are countable resources.

To maintain SSI eligibility, at the beginning of each month available cash resources must not exceed $1,500 for a single individual or $2,250 for a married couple. Therefore, proceeds from loans or sale/leasebacks would have to be spent in the month they are received, if they would cause countable resources to exceed these amounts. However, annuity payments, interest, and similiar income, except for the first $20, are counted against the monthly limit of $284.30, when determining SSI eligibility and benefit levels.

The asset and income levels allowed for medicaid eligibility vary from State to State. South Dakota is the only State to specifically exempt reverse mortgage loan proceeds, both interest or earnings, from consideration in determining initial or continuing eligibility for, or the amount of, medical or public assistance.

COSTS AND RISKS

Equity conversion involves both costs and risks for the homeowner. Depending upon the method of conversion, the costs could be in the form of interest and various fees or commissions. The owner may receive less for the property than full market sale value and not receive the benefit of appreciation in the property's value over subsequent years.

Many homeowners would consider it risky to deplete their home equity during their own lifetime. Owners also must consider the possibility that the lender or program provider might default on monthly payments and the potential erosion of the dollar value of monthly payments over the years due to inflation.

For many older homeowners, debt-free ownership of their homes represents a hard won lifetime accomplishment. Understandably, they may be reluctant to assume any new mortgage debt or relinquish complete ownership of their homes.

In reverse equity loans, the main risk is that the homeowner will live longer than the term of the loan and will have to sell the home to repay the loan. Also, there is some risk that the home will depreciate in value over the term of the loan. In split equity and sale/leaseback arrangements there is a danger that the investor or sponsoring public body may be unable to make the monthly payments which the elderly person depends upon for income. With annuity plans, the homeowner takes the risk that they will not live long enough to justify the higher cost of the annuity. With all fixed income payment equity plans, there is the risk that inflation will erode the spending value of the payment and the homeowner will not have enough income to meet basic needs.

CONSUMER SAFEGUARDS

Home equity conversion can be a complicated and confusing process. These techniques are new and it will be some time before sufficient experience is developed to provide national models and widespread knowledge of the process both among lenders and consumers.

Because of the novel character of home equity conversion, plans may contain provisions which even the most well-informed consumer would not be able to properly evaluate. Also, because of the limited availability of home equity plans, the traditional market mechanisms which winnow out inferior or defective products may not operate.

Care is needed to minimize the financial risks faced by elderly homeowners and the potential for failure or fraud in home equity conversion. For many, home equity represents their only asset of any size and once it is used up, the older person may have few other financial resources. Therefore, society has an interest in making certain that the rights and interests of the elderly homeowner are protected. Homeowners considering equity conversion should seek sufficient counseling and legal advice to fully understand the potential consequences.

The major element for protection of homeowners is that of disclosure. Virtually all of the instruments and legal documents for home equity conversion—reverse mortgages, sale/leaseback, or deferred loans—will be complicated and difficult for a lay person to understand. Therefore, the elderly homeowner should be provided with information which explains the program clearly and simply and which provides a basis for comparison with alternative plans. The homeowner should be able to see the amount of income which would result under various payment schedules and interest rates.

Consumers should obtain the following information for each plan: Initial cash payment; monthly payment or net monthly payment to the homeowner; the expected schedule of payments, if interest or payment level will be adjusted; tax status of payments; term or duration of monthly payments; equity position of the homeowner at term or after a specified period of time, including the loan balance attributable to interest and principal; the amount and terms of any annuity; in the case of variable interest rates, the effect of a specific rate change, e.g., from 12 to 14 percent on payments and loan balance; any prepayment penalties or penalties for revoking the agreement; the disposal of the property at the end of term, or reappraisal of property value.

For reverse equity and deferred payment loans, the following information should be disclosed: Loan to value ratio, the right of the lender to escalate payments or change the term of the loan, including conditions under which payment can be required prior to term; equity position of the borrower/homeowner if death occurs prior to term; rights of the senior homeowner on the sale of a loan to the secondary market or another investor, and agreement on situations, such as tem-

porary move-out of the homeowner or diminished mental and physical capacity.

Because home equity conversion plans are so different from conventional loan arrangements, financial counseling should be a part of all plans. This counseling should involve the homeowner's attorney and any heirs to make certain that the older person's rights and interests are fully protected and that the consequences of the plan in terms of repayment of the loan, eventual ownership, and disposal of the property are fully understood by all parties.

With a loan plan, the disposition of the property at the end of term or when the homeowner dies is a frequent source of anxiety to the lender and may cause friction and dissatisfaction for the homeowner and the heirs. Lenders may require the borrower to make specific disposition in a will. Lenders fear the owners will outlive the equity and do not want to be in the position of having to sell the home and leave the elderly person destitute, in order to receive payment. Similarly, heirs may resent the dissipation of a major portion of the estate where the lender receives the loan balance or the home is sold to an investor. Some of these difficulties can be overcome by limiting the initial loan to less than the full amount of equity. This assures the homeowner of a remaining asset in the home.

Any loan plan including an annuity should compare the rate of interest at which the annuity accumulates with the mortgage interest rate to make certain that the annuity will yield sufficient income for the homeowner.

In split equity and sale/leaseback arrangements, care must be exercised to assure the elderly seller's rights to a lifetime tenancy under the lease, since the seller must depend on the home as a place of residence and upon the reliability of the buyer/investor. The lease must protect the elderly person against situations which could force him/her out of the home. Future rents and rent increases must be specified. Responsibility for repairs and maintenance, and conditions for eviction must be specific. The seller and investor should agree on situations such as temporary move-outs, the allowance of additional tenants, and possible diminished physical and mental capacity of the elderly tenant. The terms of the sale also should be clearly spelled out. If there is a mortgage payback, the term should be carefully determined to relate to the potential life expectancy of the elderly seller, so as to provide an income stream of necessary length and reduce the cost of any annuity. The terms of sale must be considered in light of the tax consequences to both the buyer and seller. The seller must be given adequate safeguards in the event the buyer defaults on the mortgage or the monthly payments stop for some reason. The seller's heirs must understand the consequences of the sale.

The same cautions regarding loan annuities also apply to sale/leaseback plans with annuities. The elderly seller should be certain that the annuity purchased by the investor will yield a monthly payment large enough to cover future rents and provide living expenses.

WHAT LENDERS NEED TO KNOW

Lenders can participate in home equity conversion in a variety of ways. They may originate equity loans to homeowners or they may make commercial mortgage loans to investors in sale/leasebacks.

Equity conversion loans have been offered at various times by lenders in Maine, Ohio, Pennsylvania, New Jersey, Wisconsin, California, Minnesota, and Arizona. However, only a few lenders offer such loans on a regular basis.

The Federal Home Loan Bank Board has issued regulations expressly authorizing federally chartered and insured savings and loan institutions to make reverse mortgage loans and adjusted interest rate reverse mortgages which are disbursed in equal monthly payments. The Bank Board has issued regulations allowing lump-sum disbursement and line-of-credit disbursement of equity loans.

Both lenders and investors interested in home equity conversion should understand that as with any new, innovative lending/investment area, there will be high initial information and other costs. Home equity loans will require more counseling of borrowers and tailormaking of the instruments than would be necessary for conventional loans. These costs can be expected to decrease as program experience and knowledge grow.

Lenders should be careful to appreciate the different and complex character of home equity lending. Careful assessment of each situation is key to protection of both the borrower and the lender.

In terms of cash flow and risk, reverse annuity mortgages are not simply the mirror image of conventional mortgage loans. With a conventional loan the full amount is disbursed at the beginning of the loan and paid back in monthly installments with interest. With reverse loans, the disbursements from the lender to the borrower are less than the maximum loan balance because the loan is nonamortizing. On a 15-year, 14-percent reverse loan, the cash paid out by the lender amounts to only 30 percent of mortgage payoff, the remainder constituting accrued interest.

The term of the reverse mortgage is the most sensitive element in determining the amount of cash paid monthly to the borrower and the long-term risk to the lender. A $100,000, 14-percent loan would generate payments to the lender of $1,185 per month on a conventional loan, while a rising debt would generate payments from the lender to the homeowner of $57 per month for 30 years, $386 per month for 10 years, and $1,116 per month for 5 years.

Unlike the conventional mortgage loan, the lender's risk under a reverse equity or deferred payment loan is least during the early years of the loan, when little interest has accumulated and little equity has been drawn down. However, the risk increases with the length of loan term and the potential for depreciation in property value. Equity lending requires an initial capital investment and a long-term commit-

ment of funds. Initially, the cash flow is negative, until some of the loans are repaid and the properties sold. Also, the rate of return on equity investments is uncertain.

The major underwriting considerations for home equity loans are the age and potential life expectancy of the borrower, the location and present value of the property, and the expected appreciation in the property value during the term of the loan. Adjustable rate, graduated payment, and shared appreciation arrangements are a means by which lenders can minimize the risks of rising debt loans while maximizing the monthly payments available to borrowers.

Under lifetime annuity arrangements, which may be part of rising debt loans, sale/leasebacks or deferred payment loans, the annuity must be large enough to provide the homeowner with a continuing income. The age and life expectancy of the homeowner are major considerations. Annuities with payments large enough to pay interest and income at term on a rising debt loan usually are not viable unless the borrower is quite old, at least 75 years old (for men) or 80 years (for women). This is because of the power of compound interest and the negative arbitrage between the mortgage rate and interest rate over the long term.

WHY ISN'T HOME EQUITY CONVERSION MORE AVAILABLE?

If home equity conversion is such a good idea, why aren't reverse annuity mortgages and sale/leaseback plans available in every community? The answer is that they can be if local lenders and investors are willing to do them (unless there is some restrictive State law). Also, more older homeowners need to investigate and show interest in equity conversion, to create demand.

One of the major problems faced by existing home equity programs has been finding older homeowners willing to take the risks inherent in something so new. Frequently, homeowners have resorted to home equity loans or sale/leasebacks not from affirmative desire, but because tapping home equity was the only way they could avoid sale of their homes or some other equally undesirable alternative. Lenders and investors want to know what the "demand" is before they make the investment of time and energy needed to participate in new ventures.

There are other reasons, besides lack of visible consumer demand, why home equity loans and sales have been less attractive than they might be to lenders and investors. Legal restrictions are posed in some States by usury laws. Given recent experience, lenders are leery about making fixed rate loans. The future commitment of equity payments at today's high interest rates, will rapidly consume home equity. Lenders justifiably are concerned with the uncertainty of mortality risks and fear that some older people will outlive their home equity. Also, they are concerned that heirs will contest the sale of the home to pay off the loan.

For lenders there have been two other disincentives, no mortgage insurance is available for reverse annuity loans, such as there is for conventional mortgage loans. Given the newness of this approach and the unknown risks involved, it might be appropriate for the Federal Government, through the Federal Housing Administration (FHA), to provide such guarantees, as it did when 30-year fixed payment mortgages were new and risky lending instruments.

Another deterrent is the lack of a secondary market for reverse annuity mortgages and deferred payment loans, which would allow lenders to sell the loans to investors and rid themselves of the continued financial responsibility for them.

For investors, the lack of mortgage insurance also makes RAM's a less attractive investment for secondary market purchase. With sale/leasebacks, one major problem is the uncertainty of tax consequences for the investor; especially whether the investor will be able to take the new rapid depreciation rates on property leased back to its former owner. The Internal Revenue Service has not clarified the questions and related tax questions affecting the seller in a sale/leaseback. So long as these doubts exist, investors will be reluctant to participate in sale/leasebacks.

WHERE YOU CAN GET MORE INFORMATION

The following organizations can provide more information on specific plans and home equity conversion in general:

American Bar Association, Commission on Legal Problems of the Elderly, 1800 M Street NW., Washington, D.C. 20036, (202) 331–2297, contact: Ken Shimeall.

American Homestead, 305 Fellowship Road, Mount Laurel, N.J. 08054, (609) 866–0800, contact: James Burke (New Jersey residents only).

Fouratt Senior Equity Plan, the Fouratt Corp., P.O. Box K, Carmel-by-the-Sea, Calif. 93921, (408) 625–4447, contact: G. Robert Henry.

Home Equity Living Plan (HELP), Schiller Park Senior Center, 2057 Genesee Street, Buffalo, N.Y. 14211, (716) 892–2141, contact: Donna Guillaume.

National Center for Home Equity Conversion, 110 East Main Street, Room 1010, Madison, Wis. 53703, (608) 256–2111, contact: Ken Scholen.

Reverse Annuity Mortgage Program, San Francisco Development Fund, 1107 Oak Street, San Francisco, Calif. 94117, (415) 863–7800.

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